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Weekly Contributions,   
(CIA Working Paper)

11 April 1950

1. GENERAL: Termination of Declining Trend in Latin American Communism Indicated

Although Communist strength and influence in Latin America remain generally at a low level, the gradually declining trend which became evident in 1947 has not continued in all countries. Apparently, it has reversed recently in at least three countries and has leveled out in a number of others. Communists have sustained losses in Mexico, Argentina, and Colombia as a result of new or increased government anti-Communist action; and have been prevented from making gains in Brazil, Bolivia, and Chile by continued repressive action. They have made some recent political gains, however, in Guatemala, El Salvador, and Cuba, where major political parties have accepted their collaboration. Such collaboration has reduced Communist political isolation, making anti-Communist action more difficult; has increased Communist respectability, thus increasing their ability to attract new recruits and to collect funds; and has put certain politicians under obligation to them.

Although these recent deviations from the declining trend do not represent a large change in Communist political capabilities, they are of significance as signs of possible future additions to the already irritating minor Communist capabilities to affect US security interests in various countries. In Cuba, for example, Communists are able to distribute considerable propaganda — sometimes disguised in a semi-conservative garb — designed to undermine US prestige and influence; and are able to send their organizers to aid Communist parties in other countries. In addition, Communists can damage the sugar crop significantly in the event of an emergency. Communists and Communist sympathizers in the Guatemalan government could use some of that government's facilities for the benefit of Communism. The unstable economic and political conditions of Chile, Bolivia, Paraguay, and Ecuador provide situations which Communists have the ability to exploit. In Brazil, despite considerable repression, the Communists have retained a substantial following, and have demonstrated their ability to propagandize against the US effectively enough to delay the passage of a petroleum code favorable to US interests. In Mexico, where the Communists have influence which extends well beyond the acknowledged Communist Party, they are capable of placing saboteurs in the oil industry. Finally, throughout the area, the Communists, through the CTAL, are able to conceal some of their intra-continental activities, collect intelligence, and further their labor objectives.

2. Results of Pro-Communist CTAL Meeting in Montevideo

The pro-Communist CTAL Congress of South American Trade Unions held in Montevideo on 27-31 March 1950 ( Wkly, 21 Mar 50) appears to have failed in many respects to achieve important ends, but did, nevertheless, promote certain Communist objectives.

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It is true that the Congress proved negative as a propaganda medium, despite the anti-US speeches at the only open meeting, because few who were not already Communists or Communist sympathizers attended and because no local non-Communist newspapers reported the meeting. Moreover, Saillant and Rostovsky, two top officers of the Communist-dominated World Federation of Trade Unions, were prevented from coming to the meeting by the refusal of the Uruguayan government to grant them visas.

On the other hand, the Congress served to boost the morale of local Communists and to provide a setting for four days of secret Communist meetings. In addition, regional committees were formed to develop the CTAL into a more active force throughout the Hemisphere. Since the Communists use the CTAL as a cover for liaison and intelligence in Latin America, development of such regional committees may strengthen Communist organization.

3. NICARAGUA: Presidential Election Set

The likelihood that President Román y Reyes will die soon has precipitated an agreement between General Somoza (Minister of War) and General Chamorro (Conservative Party leader) concerning the date and nature of Nicaragua's presidential election. The agreement provides for the election, on 21 May 1950, of a president and delegates to a constituent assembly, and stipulates that only the National Liberals (Somoza's party) and the Conservatives (Chamorro's party) can submit candidates. This prevents the Cuadras-pasista Conservatives (Somoza's erstwhile collaborators), the Independent Liberals (the Carlos Pasos-Arguello faction), and other opposition groups from elective participation. By this agreement, the winning presidential candidate is assured majority support in the constituent assembly, which is to rewrite the Constitution of 1948 in order to make Somoza's candidacy constitutional and to include nominal recognition of the social guarantees and of the rights of man as set forth in the Bogotá Pact. However, according to the agreement, the president-elect cannot take office until May 1951 or until President Roman dies or resigns. Should Román die before the election, the current pro-Somoza Congress will probably name an interim president.

\_\_\_\_\_ estimates that Somoza's political control is an effective guarantee of his election and continued dominance. No fundamental change in the Nicaraguan situation or in Nicaraguan-US relations is therefore to be expected. However, the assumption of office by Somoza as duly elected president might, to some extent, improve Nicaraguan relations with countries favoring "democratic practices" and handicap the efforts of anti-Somoza groups that claim his regime constitutes a "dictatorship".

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5. PARAGUAY: Colorado Party Convention

The Democratic Colorado faction, currently in control of the government, will seek to dominate the Colorado Party convention scheduled for 16 April for the purpose of selecting nominees for president and for the House of Representatives, Paraguay's only elective legislative body. Provisional President Federico Chaves is the probable candidate for president. Despite a few conspiracies against the administration, it is estimated that other factions of the Colorado Party are not strong enough to prevent the Democratic Colorados from controlling the convention and its nominations. If usual elective procedures are followed, these nominations will be tantamount to election.

6. PERU: Open Break Between Odria and Beltrán

The arrest of ex-Communist Eudocio Ravines, editor of the Beltrán-owned newspapers, and the subsequent resignation of Pedro Beltrán as head of the Peruvian Central Bank, constitute an open break between the regime and Beltrán, formerly a strong supporter. Coolness between Odria and Beltrán has existed for some time as the Beltrán newspapers have attacked various administration measures, especially Odria's delay in resigning his office.

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While Beltrán's political group, Alianza Nacional, has little following, Beltrán was an important factor in the October 1948 revolt by which the regime was established. His defection will further decrease Odria's chances for a "walk-away election" to the presidency in July.

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### The Current Situation in Brazil

(Summary — Recent developments regarding the forthcoming presidential elections have further confused the political situation. The army remains loyal and is in position to prevent a coup at this time. Brazil's economic and financial condition is better than it has been for the past few years. The Communists are no threat to the regime. Although Brazil continues its close cooperation with the US in international affairs, there is considerable anti-US feeling among some officials and the public because they feel that Brazil is being neglected economically by the US.

— US security interests have not been favored due to the continued difficulty in obtaining increased shipments of manganese and the present widespread anti-US feeling.)

#### Political

Recent developments regarding the forthcoming presidential elections have confused further the political situation. Two outstanding presidential prospects, War Minister Canrobert (see Military) and the Governor of São Paulo, Adhemar de Barros [redacted] Wkly, 28 Feb 50), have eliminated themselves by failing to resign by April 3, the deadline on which cabinet ministers and governors were required to resign in order to be eligible for the presidency. In fact, the only resignations were those of two minor politicos — both cabinet members — one of whom has hopes of becoming the "dark horse" candidate of the two major parties, the government PSD and the UDN. However, agreement on a candidate by these parties seems as remote as it did several months ago, despite almost daily proposals and counterproposals.

It is true that this situation increases the prospects for ex-dictator Vargas, or a candidate mutually supported by Vargas and Barros (in a press interview, the latter strongly intimated that he was supporting the candidacy of Vargas). There have also been rumors of a possible military golpe if the PSD and the UDN fail to agree on a candidate whose chances of success appear good (see Military). However, in a situation where presidential prospects have loomed up only to disappear from the scene it is impossible at this stage to predict who might be the candidates of the respective political parties.

#### Military

During the past few months there have been rumors of an impending army coup which would prevent a normal solution to the choice of the next president. These rumors, which have apparently gained momentum during the past fortnight, may be responsible for Canrobert's decision not to resign the War Ministry to become a presidential candidate. At all events, he has previously stated that he would countenance no coup on the part of the army and on 3 April that it "will maintain the democratic order at any cost". Furthermore, if the major political parties were to unite in favor of a single presidential candidate such a coup would be improbable.

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On 1 March a law became effective which provides for retirement of officers of the armed services and the federal and state police who belong to, are affiliated with, or support the doctrines of illegal associations or political parties. This law opens the way for the elimination from the armed services of those officers affiliated with Communist-front groups.

The recent satisfactory combined arms maneuvers, as reported in the press, indicate that the Brazilian armed forces continue to be somewhat more advanced in this regard than those of other Latin American armies. An additional improvement in the quality of military training of high ranking officers can furthermore be expected as a result of the establishment of the National War College (inaugurated on 15 March).

#### Economic

Brazil's economic and financial situation, better now than it has been for the past few years, should continue to improve during the coming months. Industrial activity remains brisk with little or no unemployment reported. Although a complete solution to the inflation problem is not in sight, the government has denied most demands for increased wages and efforts are being made to reduce the high cost of living.

The external-debt position has been improved considerably by large payments on the commercial backlog due US exporters, and there appears to be sufficient foreign exchange to place Brazil on a current status as soon as administrative delays can be overcome. Although Brazil's over-all balance of trade for 1949 showed a deficit of Cr\$1495.9 million (about US \$26.7 million), its trade with the US was favorable by US \$73.6 million - thus reversing a post-war trend. A continued favorable balance of trade with the US, and possibly with all countries, appears likely. However, US security interests have not been favored due to the continued difficulty in obtaining increased shipments of manganese from Brazil. [REDACTED] Wkly 17 Jan 50).

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A development conflicting with US trade policies is the increasing official encouragement of private barter transactions designed to move export commodities finding little foreign demand, in return for luxury items as well as essential imports, without using dollar exchange. Brazil is currently discussing trade agreements with twelve nations including Western Germany, while discussions with Yugoslavia were reportedly concluded last month with the signing of an agreement (not yet ratified).

#### Subversive

The most virulent Communist activity in recent months was the campaign during February and early March against the visits of Mr. Kennan and Assistant Secretary of State Miller in connection with the meeting in Rio de Janeiro of

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the US Ambassadors to the South American countries. The police, evidently aware of such plans, were able to prevent any large demonstrations or any particular violence [ ] Wkly 7 Mar 50).

The individual Brazilian Communists who attended the pro-Communist CTAL meeting in Montevideo during the past month [ ] Wkly 21 Mar 50) are not fully representative of Brazilian labor, and their influence is negligible.

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Brazilian Communists are still in no position to threaten the national security and are not expected to make any gains in this direction in the near future.

International

US long-range security interests continue to be favored by Brazil's international policies and practices (see [ ] Wkly 28 Dec 49). A case in point is the fact that Brazil deposited on 13 March its ratification of the OAS Charter, thus becoming the fifth American nation to ratify it.

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On the other hand, during the past several months, there has been considerable anti-US feeling. Underlying recent criticism of the US is the feeling of Brazilians that in economic matters the US is not granting them enough consideration, particularly in view of Brazil's record of cooperation during World Wars I and II and the post-war period. There has been, for example, a growing fear and resentment among Brazilian officials and public that the Marshall plan is benefiting competing economies in Asia and Africa to the detriment of Brazil and other American Republics. Brazilians now even fear that Point Four, if implemented by the US congress, will have a similar effect.

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A more immediate target for criticism has been the US congressional hearings regarding the rise in the price of coffee. Brazilians regard the hearings as unobjective and as blaming Latin American coffee interests---Brazilian in particular [ ] Wkly 28 Dec 49). The invitation extended to a completely discredited "economist" of Portuguese origin to come from Rio to testify at the hearings has aggravated Brazilian sensitivity. This sensitivity was also reflected in the editorials of a large, generally pro-US, São Paulo newspaper (considered the New York Times of Brazil), criticising the 22 March speech of Assistant Secretary of State Miller as indicating that Brazil should be kept as an exporter of raw materials for the US.

Should the present wave of anti-US feeling continue - there is so far no evidence to the contrary - this would adversely affect the close cooperation which Brazil normally extends to the US.

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The Current Situation in Ecuador

Summary -- The stability of the government continues to be threatened by both army and civilian-inspired conspiracies. The economy has suffered several setbacks and the outlook for the immediate future is not favorable. Disaffection continues, but on the whole the army still appears loyal to the government. Lack of funds limits the Communist Party's capabilities for effective action. Ecuador will continue to be influenced by US foreign policy in its international relations.

Recent developments in Ecuador have not adversely affected US security interests.)

Political

The stability of the government continues to be threatened by both military and civilian conspiracies. During the last few months in various opposition movements have been seeking to strengthen their positions. Carlos Quevara Moreno, backed by Guayaquil bankers and businessmen, has been printing a bitter anti-Plaza weekly magazine and recently formed a new political party (Partido del Pueblo) to serve as a focal point of opposition to the Plaza administration. Col. Cesar Alfaro, Deputy Chief of the Armed Forces, continues to stir up trouble within the army and, with Socialist support, he probably presents the greatest threat in the Sierra region. In view of the recent alliance between the Socialist and Liberal-Radical Parties, Alfaro probably can now also count on the support of many left-win members of the Liberal-Radical Party. In addition to these two principal potential revolutionary leaders, reports of late have raised doubts about the loyalty of the Minister of Defense (allegedly engaged in deals with the Communists) and of the Commander of the Army, Vega Davila.

The fact that Plaza's opponents vary all the way from bankers on the right to Communists on the extreme left makes practically every move of the government subject to bitter attack from some quarter. Given the increased popular unrest and dissatisfaction which this situation has produced, it is of course possible that a revolution could get started at any time. On the other hand, however, the very diversity of interests among the opposition contributes to the continuance of Plaza in office. As none of the oppositionist groups appears to have sufficient strength to act alone, the success of any revolutionary action depends upon the willingness of two or more of them to accept the compromises necessary for their effective collaboration. While it is true that the possibility for such collaboration seems greater than it did three months ago, at the moment there still remains too much divergence to make a successful coup possible in the immediate future.

Economic

The Ecuadorian economy has suffered several setbacks and, although the benefits of new agricultural methods may be felt in six months' or a year's time, prospects are not favorable for improvement in the economic outlook in the immediate future.

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Severe floods in March paralyzed rail transportation between the port of Guayaquil and Quito. It is estimated that repairs will cost about 12 million sures (c. US \$889,000) and will require two or three months for completion. The serious food and gasoline-supply problem resulting from this situation and the consequent skyrocketing of prices has led the government to establish price controls and gasoline rationing in the Sierra region from Quito to Cuenca. Two other blows to the economy in recent months will have a more lasting effect: (1) the Shell Company of Ecuador's decision to end explorations in the Oriente if sufficient quantities of oil for commercial exploitation have not been found by the end of April; and, (2) the announcement of the termination of the South American Development Company's gold mining program in Portovelo. The closing of the mine will create a serious unemployment situation affecting about 20,000 people.

At least partially offsetting the effect of these unfavorable developments have been recent indications of an eventual improvement in the quantity and quality of Ecuador's exportable agricultural products. Expansion in banana production for 1950 is planned, since banana exports in 1949 showed a 25 per cent gain over the preceding year and, due to the sharp increase in world banana prices, had an export value 80 per cent above that of 1948. Improvements in cocoa plantings, the introduction of mechanized techniques to reduce the costs of rice production so that Ecuador's product can better compete in the world market, and the continuing high market price of coffee offer further encouragement.

The government of Ecuador is still investigating the best means of revising its exchange-rate measures in a manner which will meet with the approval of the International Monetary Fund, and latest reports indicate that these steps will probably be in the direction of simplification of multiple exchange rates  Wkly, 21 Mar 50).

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Military

On the whole, the army continues to support the government, more because of a lack of unity among the disaffected elements than because of any admiration for the present administration. The pay raise and monthly bonus which became effective in January were too slight to effect any improvement in morale.

Army planning calls for a considerable decrease in troop strength in the coming year because of a \$5,000,000 cut in the national defense budget. Although these plans envisage the dismissal of many regular troops, it is doubtful that the government will make such a move in view of the increased agitation which it would produce in the army. Any reductions in troop strength in 1950, therefore, will probably be effected by cutting down the number of conscripts who are normally called up for training in the course of a year.

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Subversive

Communist leaders have ambitious plans for a general strike, but given the present lack of funds and the declining enthusiasm of rank-and-file party members, such plans have little chance of realization without considerable financial support from abroad.

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As yet there is no clear evidence that the PCE has received financial help from any other foreign source.

Communist influence in the Sierra region continues to be negligible. The party's influence is confined principally to the labor unions of the coastal region, a few of which it controls through majority representation on the directorates. Communist coastal leaders were active in the recent railway labor conflict and their plans for the future include the instigation of a strike in the oilfields of the Santa Elena peninsula.

No significant increase in the strength or effectiveness of Ecuador's Communist Party is expected during coming months.

International

At present Ecuador is not confronted with any serious international problems, and continues to be favorably disposed toward the US.

The question of recognizing Communist China or, at least, of deciding whether the latter should be seated in the UN has been a matter of concern in recent months. Ecuador has little desire to take an independent stand in the Security Council on such a large issue and, since the US position has not been made clear, the Ecuadoran government has recently announced that it will abstain from voting if the question comes before the council.

A report of 6 March indicates that Ecuador will soon send an ambassador to Spain. This would represent a reversal of the former Ecuadoran policy (reaffirmed as recently as 21 March by Dr. Homero Viteri-Lafronte, Ecuadoran UN representative) of abiding by the 1946 UN recommendation for the withdrawal of chiefs of mission from Madrid.

A meeting of the guarantors of the Peruvian-Ecuadoran boundary under the Rio Protocol of 1942 may soon be held for the purpose of trying to solve the Lagartococha dispute. Ecuador has expressed its willingness to refer the case to the International Court of Justice but Peru (which feels that the matter has already been settled in its favor) opposes submitting the dispute for judicial settlement.